

Approved Minutes
CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION MEETING
Thursday, December 9, 2004
2:00 P.M.

Jesse M. Unruh State Office Building
915 Capitol Mall, Room 587
Sacramento, CA 95814

1) ROLL CALL

Chief Deputy Treasurer Kirsten Snow Spalding called the meeting to order at approximately 2:05 p.m. Members present included: Bob Campbell for Governor Arnold Schwarzenegger, Wendy Scott for State Controller Steve Westly, Donna Linton, Assembly Member Judy Chu. A quorum was present.

2) APPROVAL OF THE MINUTES (June 22, 2004)

Mr. Campbell moved that the minutes of the June 22, 2004 meeting be approved. The motion was seconded by Ms. Spalding and passed (3-0).

3) EXECUTIVE DIRECTOR'S REPORT

Ms. Lisa M. Harris presented a summary of CDIAC's seminar activities since the June 22, 2004 Commission meeting. This discussion provided information on ongoing educational seminar programs. These seminars included six debt-related issuance seminars, four public investment-related seminars, and six Tools to Revitalize California Communities seminar programs. Ms. Harris also provided a list of planned seminars, reports, and projects for 2005.

Ms. Harris presented information regarding the completion of several CDIAC publications such as: *Auction Rate Securities Issue Brief*; *The Fundamentals of Interest Rate Swaps Issue Brief*; the revised *Appraisal Standards for Land-Secured Financings*; an informational guide on *Investment Portfolio Reporting Practices* and CDIAC annual reports.

4) INFORMATIONAL ITEMS

Item 4.a. Summary of Investment and Debt Technical Advisory Committee (TAC) Meetings

Ms. Harris introduced Kristin Szakaly-Moore, Director of Policy and Research, who provided a summary of the CDIAC Investment and Debt TAC meetings.

INVESTMENT TAC MEETING SUMMARY

The Investment TAC meeting was held September 23, 2004 to discuss current and future CDIAC publications and seminars, as well as issues facing public fund

investors. The majority of the meeting focused on a discussion of the forthcoming investment primer. TAC members were provided an opportunity to provide comments and suggested final edits to the draft investment primer before final publication. TAC members recommended a "Cliff Notes" version of the investment primer to make the document more accessible to first-time users and post the document on the CDIAC website for quick reference.

TAC members were asked if there are any outstanding industry issues that could be incorporated into seminar programs or researched by staff. Suggestions included how local agencies report earnings in different economic environments, how these different methods effect investment portfolios, and how they can be used. Another potential issue is how government-sponsored investment vehicles such as Fannie Mae and Freddie Mac are being utilized.

DEBT TAC MEETING SUMMARY

The Debt TAC members reviewed two sections to be added to the CDIAC California Debt Issuance Primer (debt primer). The sections included interest rate swaps and auction rate securities. Debt TAC members were also provided an opportunity to make comments and suggestions for input into the updated version of the debt primer.

Item 4.b.I. Discussion of CDIAC Work Plan for 2005 Seminar Activities

Ms. Harris introduced Linda Louie, Manager of the Continuing Education and Outreach Unit. Ms. Louie briefed the Commission on CDIAC's seminars and workshop activities proposed for 2005.

Key seminars and conferences include CDIAC's attendance at the *California Society of Municipal Finance Officers Annual Conference* in Burlingame, CA, hosting a session on auction rate securities and public fund investment-portfolio evaluation, and *Understanding Municipal Securities Disclosure Symposium*, a one-day seminar focused on Securities and Exchange Commission Rules regarding disclosure and educating issuers on the use of the Central Post Office system.

Other programs CDIAC will be providing include a half-day pre-conference at the *California Municipal Treasurer's Association Annual Conference*; the *Fundamentals of Debt Financing*, the *Advanced Debt Financing Workshop*, and a pre-conference at the *15th Annual California Bond Buyer Conference*.

CDIAC will also hold several public fund investment seminars. These include: *Investing Public Funds: Fundamentals of Managing Your Portfolio*, which is a one and one-half day beginning investment seminar for local public officials and their staff to obtain information about investment concepts and instruments and the *Advanced Portfolio Management Decision Making Workshop*, which is a one-day workshop for local government officials and their staff providing a hands-on

opportunity to evaluate various investment options public funds utilizing BLOOMBERG services and other electronic sources.

CDIAC staff is exploring the possibility of co-partnering with UCLA to host a Tools to Revitalize California Communities/*SMART Growth* seminars in the future. UCLA has invited Ms. Harris to participate as a member of the planning committee to include CDIAC in its upcoming *SMART Growth* conference.

Item 4.b.II. Discussion of CDIAC Work Plan for 2005 Reports/Publications

Ms. Szakaly-Moore briefed the Commission on CDIAC's research goals and proposed projects for 2005. The Annual Elections Report, which summarizes bond and tax measures that appeared on the 2004 state ballots, an update on the *Local Agency Investment Guidelines*, which discusses law changes affecting local government regarding public investment, as well as best investment practices; and the new CDIAC Investment Issuance Primer. All documents will be available in early 2005. CDIAC's updated Debt Issuance Primer is expected to be available later in 2005. Both Primers will be available on CDIAC's website.

CDIAC is developing a document that will be a compliment to its Investment Portfolio Reporting Practices guidebook, and will include information on investment policies submitted under AB 943. CDIAC staff also is working on technical issues briefs on interest rate Swaps and securities lending agreements.

Commission Member Donna Linton indicated that Alameda County has just completed a study looking at the County's contracting practices and the extent to which dollars were flowing to local businesses as well as minority owned and women owned businesses. Based upon the surprising results of that report (that nearly 90 percent of the contracting dollars over a three year period went to white male owned businesses), Ms. Linton thought it might be interesting to analyze the public finance side and the extent to which financial advisors, investment bankers, as well as bond counsel include a diverse sector of the community. Ms. Linton indicated it might be interesting to look at the data that is collected by CDIAC to find how the fees are split in terms of debt issuance. Ms. Linton proposed that as an additional piece of data, CDIAC perhaps could collect and see what the trends and practices are and the extent to which there is diverse business participation in bond financing in the State of California.

Ms. Spalding asked Ms. Harris if CDIAC gathers such information or if CDIAC would have to change its information gathering practices.

Ms. Harris reported that CDIAC tries to keep track of the cost of issuance and who makes up that cost of issuance, but the data is spotty. CDIAC currently does not track the diversity of the bond financing team and that CDIAC's debt issuance forms would have to be changed.

Ms. Harris suggested the possibility of a survey of cities to gather information without changing the form.

Ms. Spalding instructed staff to explore the issue and report back at the next meeting with some ideas how to implement a program that would ask those questions.

Item 4.c. Summary of CDIAC Fee Trend Analysis

At the June 22, 2004 Commission meeting, CDIAC approved a resolution to roll over the current fee structure for another year. Having done this at the last commission meeting, CDIAC staff conducted an analysis to gain some understanding of fee trends. Mark Campbell, Manager over CDIAC's Technical Assistance Unit, summarized the results of that analysis. He outlined the various types of fees collected attached to the issuance of public debt. At the present time, there is an approximate \$6.2 million surplus in the CDIAC fund, including a \$5.5 million loan to the state general fund. The fees over the period studied (1998 to present) have generally trended upward on an annual basis. The trend reflects cyclical and seasonal variations in response to public debt issuance.

Mr. Campbell outlined the various modeling factors available to analyze debt issuance trends, utilized prior year trends and accounting for seasonal and cyclical variations to estimate future trends. The model is only reliable over a short-term period of time and the further out projections are made, the more questionable these projections.

Based on the analysis, growth in CDIAC's fund is expected to be 5-6 percent over the next year. As result, fees are expected to continue to grow; therefore, CDIAC's fund surplus will also continue to grow given that operational expenditures will be flat.

Commission Member Bob Campbell asked if CDIAC staff was recommending a fee deferral again. Mr. Campbell responded by stating CDIAC staff was not making any recommendations at this time. Mr. Campbell did propose to look at all alternatives and make a report back to the Commission at the next meeting.

Ms. Spalding suggested that CDIAC staff consider several options: 1) to keep the fee structure at current rate; 2) to reducing the fee; 3) to work with state budget process and expand services to local government partners who are paying this fee.

5) PUBLIC COMMENT

There was no public comment.

6) ADJOURNMENT

There being no further business, the meeting was adjourned by acclamation at 2:45 p.m.